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SUBJECT: EMBASSY MINSK WEEKLY POL/ECON REPORT - JANUARY 17, 2007

¶1. The following are brief items of interest compiled by Embassy Minsk. This report covers events from January 8 to January 19.

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GOVERNMENT

¶2. Lukashenko Appoints Son to Belarus' Security Council

On January 10, independent media reported that President Lukashenko appointed his son Viktor as a member of Belarus' Security Council through a January 5 presidential edict. Although Belarus' Civil Service Law bans immediate relatives from

being appointed to a government position if this position is directly subordinated to another immediate relative, Prosecutor General Pyotr Miklashevich told reporters last year that he did not see any breach of laws in the appointment of Viktor Lukashenko as a presidential aide.

13. Parliamentary Session on Election Commission

On January 15, President Lukashenko called a special session of the upper house of the Belarusian parliament to approve nominations to the Central Election Commission (CEC). On December 26, 2006, Lukashenko reappointed Lidiya Yermoshina, Nadezhda Kiseleva, Marina Kozlovich, Nikolay Lozovik, Valeriy Matskevich and Vladimir Kholod as CEC members. The upper house will elect another six members of the commission.

----- CIVIL SOCIETY -----

14. Opposition Activist Released from Prison

On January 10, authorities released opposition United Civic Party Activist Ivan Kruk, who served six months in jail for allegedly threatening the use of force against a police officer. Kruk allegedly committed the crime during a raid of his home in the western Grodno region shortly before Belarus' March 2006 presidential elections.

15. Authorities Detain Opposition Leader, Confiscate Leaflets

On January 10, Minsk police detained opposition United Civic Party (UCP) Chair Anatoliy Lebedko for distributing political leaflets. Authorities released Lebedko later that day but confiscated those leaflets detailing UCP's regional development program.

16. Independent Newspaper Evicted

On January 11, Vitebsk Regional Economic Court judge Olga Gatilo ordered the local independent newspaper "Vitebsky Kurier" to vacate its office. The building's authority in December had given the newspaper notice to move out, but the editorial staff refused to vacate the three rooms, insisting that its contract is valid until August 31. The landlord filed a lawsuit for eviction on January 5 on grounds that the rent contract with the paper was null and void because it had been concluded without the prior consent of the local government.

17. Opposition Youths to Stage Valentine Day March

On January 18, Belarus' unregistered opposition youth group Malady Front (MF) applied to Minsk city authorities for permission to gather at Minsk's Liberty Square for a traditional march on St. Valentine's Day and plan to deliver Valentine Day messages to European embassies. The Minsk City Executive Committee must reply to the application within 15 days. However, according to organizer Anastasiya Polozhanko, MF will hold the event even if authorities deny permission.

----- INTERNATIONAL TRADE AND INVESTMENT -----

18. Automaker Finishes 36 of 800 Iranian Samands

On January 17, Belarus' automaker ZAO Yunison acknowledged suspending its production of Samand cars until its Iranian partner, Iran Khodro, approves its supply schedule and begins delivery of Samand kits to Belarus. Yunison Financial Director Sergei Skomorokh related that Yunison has not imported any kits thus far in 2007 and that several customs issues remain unresolved. Despite Yunison's plans to make 800 Samands in 2006, the company built only 36 by year's end. Nevertheless, Yunison forecasts production of 6,000 units with 30 percent profitability in 2007.

19. MMZ's Engine Exports Up 9.7 Percent in 2006

On January 12, Belarus' state-owned Minsk Motor Plant (MMZ)

reported that exports of its engines increased by 9.7 percent on the year in 2006 to 48,900 units worth USD 103.4 million. Russia accounted for 88.7 percent of all exports, up two percent on the year. Meanwhile, overall sales of engines increased by 6.4 percent to 106,400 units. Top Russian customers included the truck manufacturer ZIL, a Tver-based excavator plant, a Pavlov-based bus plant, and Russia's second-largest car producer and truck maker GAZ.

110. GOB Reports Sugar Dispute with Russia Resolved

On January 17, Belarusian independent media reported that Belarus has agreed to reduce sugar exports to Russia. Belarus will reportedly supply 180,000 tons of sugar to Russia in 2007 and 100,000 tons in 2008. Belarus' sugar companies had previously contracted to export 350,000 tons of sugar during that period. Russia had suspended sugar imports from Belarus since December 29 after Russian sugar refineries demanded Russian customs launch a probe into the chemical make-up of Belarusian sugar. The resulting customs clearance backlog cost Belarusian sugar producers approximately USD 2 million and Belarusian railroad operators approximately USD 600,000.

----- DOMESTIC ECONOMY -----

111. Household Energy Rates to Rise 20 Percent

On January 18, Deputy Prime Minister Viktor Burya announced hikes of 20 percent on January household rates for gas and electricity and 12 percent on heat but pledged no additional increases this year, barring force majeure. According to Burya, the monthly utility bill for a two-room apartment would increase by USD 5. Under a contract signed on December 31 between Belarus and Russia's gas monopolist Gazprom, Belarus has to pay USD 100 for 1000 cubic meters in 2007 compared with USD 46.68 over the past two and a half years. The gas price hike will raise household electricity costs by 55 percent to USD 0.11 per kilowatt hour.

112. Debt to Social Security Fund Down 20 Percent

On January 12, an official with Belarus' Social Security Fund told independent media that Belarusian companies' overdue debt to the fund declined by 20.6 percent in real terms during 2006 to USD 40.5 million. In December, overdue debt declined one percent, following a 0.5 percent drop in November. As of January 1, debt was 12.4 percent of the fund's monthly spending, down from 12.6 percent as of December 1, 2006 and 19.3 percent as of January 1, 2006. Agricultural companies accounted for 88.4 percent of total overdue debt as of January 1, down from 81 percent on January 1, 2006. Contributions to the fund account for 32 percent of state budget revenues.

113. Individual Bank Deposits Rise 42 Percent

On January 15, the National Bank of Belarus (NBB) reported that individuals' deposits in national and foreign currencies with Belarusian banks rose by 41.7 percent, or nearly USD 1.1 billion, in 2006. Individuals' ruble deposits reportedly rose by nearly USD 795 million, or 45.8 percent, in 2006, and deposits in foreign currencies by USD 295.3 million, or 34.2 percent. The NBB attributes the rise to its interest rate policy that is aimed at safeguarding individuals' ruble savings against depreciation risks and guaranteeing the affordability of loans to individuals and enterprises in the real sector. Moreover, interest rates for ruble deposits are still higher than the inflation rate and profit gained from deposits in foreign currencies.

----- INTERNATIONAL RELATIONS -----

114. Lukashenko Eschews Border Troop Deployment

On January 18, President Lukashenko said that Belarus' Border Troops would not be deployed on the Russian border despite Russia's recent deployment of 150 Russian border officers and the operation of 16 Russian customs clearance points for goods

originating with third countries. During consultations with President Lukashenko, State Border Troops Committee Head Aleksandr Pavlovskiy commented, "Despite the position that the Russian leadership has taken today, we will not introduce any border troops operations on the Belarusian-Russian border. We will not guard it."

¶15. Minsk Is "Open for Dialogue" with PACE

On January 18, Belarusian House of Representatives Chairman Vladimir Konoplev told visiting Council of Europe Parliamentary Assembly (PACE) President Rene van der Linden that the GOB is open for a dialogue with Europe. Konoplev indicated that Belarus' legislature does not need any additional reforms and that he has shown van der Linden the "true Belarus." Van der Linden stressed during his press conference with Belarusian journalists that he has held frank discussion with GOB officials and generally "prefers engagement over isolation." The PACE suspended the Special Guest Status of the Belarusian national legislature in January 1997.

¶16. Belarus and Italy Reach Orphan Agreement

On January 12, Belarus' Deputy Minister of Education Tatyana Kovaleva announced that the GOB has drafted an agreement between Belarus and Italy on the stay of Belarusian children in Italy. The draft reportedly stipulates that any Belarusian children staying in Italy remain Belarusian nationals and all matters concerning them should be settled according to Belarusian law or with the participation of the country's official representatives. The GOB has refused to allow orphans to stay with Italian families since an Italian couple blocked the return home of a visiting Belarusian orphan in September 2006 after claiming that she had been abused in her Minsk boarding school.

¶17. Belarus to Sign Taxation Agreement with Sudan

On January 8, the GOB announced that President Lukashenko directed Belarus to sign an agreement with Sudan on the avoidance of double taxation and the prevention of income and property tax evasion. The decree followed several December 19 trade agreements between the GOB and Khartoum signed during Sudanese Foreign Minister Lam Akol Ajawin's visit to Minsk.

----- QUOTE OF THE WEEK -----

¶18. On January 7, while speaking at Holy Ghost Church on Orthodox Christmas, President Lukashenko denied any intention of giving up Belarusian sovereignty for a Union State with or without subsidized energy from Russia:

"I have never said anywhere that we will surrender our country to anyone for tearing it to pieces. I have never said anywhere that we will let Belarus be incorporated into another country. Sovereignty is too precious a thing to trade in. Even I, a man of character, as the head of state, would never venture to do that because I know the consequences. However hard it may be for us, we should learn to live on our small patch of land and take care of it." Stewart.